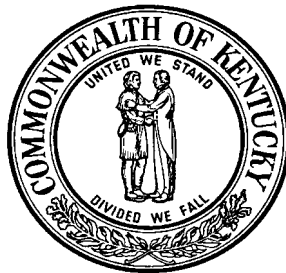


**REPORT OF THE AUDIT OF THE  
LESLIE COUNTY  
SHERIFF'S SETTLEMENT - 2007 UNMINED COAL TAXES**

**For The Period  
October 5, 2007 Through October 24, 2008**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE LESLIE COUNTY SHERIFF'S SETTLEMENT - 2007 UNMINED COAL TAXES**

**For The Period  
October 5, 2007 Through October 24, 2008**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2007 Unmined Coal Taxes for the Leslie County Sheriff for the period October 5, 2007 through October 24, 2008. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

#### **Financial Condition:**

The Sheriff collected taxes of \$1,006,764 for the districts for taxes, retaining commissions of \$41,706 to operate the Sheriff's office. The Sheriff distributed taxes of \$964,300 to the districts for taxes. Taxes of \$986 are due to the districts from the Sheriff and refunds of \$228 are due to the Sheriff from the taxing districts.

#### **Report Comments:**

- The Sheriff Should Maintain Monthly Tax Reports For All Taxes Collected And Pay All Taxes Due Taxing Districts By The Tenth Of The Following Month
- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Should Improve His Daily Cash Collection Processes
- The Sheriff Should Improve The Tax Collection Data Entry And Subsequent Reporting Processes

#### **Deposits:**

The Sheriff's deposits as of April 8, 2008 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$528,434

The Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.



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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Jimmie Sizemore, Leslie County Judge/Executive

Honorable Paul Howard, Leslie County Sheriff

Members of the Leslie County Fiscal Court

Independent Auditor's Report

We have audited the Leslie County Sheriff's Settlement - 2007 Unmined Coal Taxes for the period October 5, 2007 through October 24, 2008. This tax settlement is the responsibility of the Leslie County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, The accompanying financial statement referred to above presents fairly, in all material respects, the Leslie County Sheriff's taxes charged, credited, and paid for the period October 5, 2007 through October 24, 2008, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated August 11, 2009 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Jimmie Sizemore, Leslie County Judge/Executive

Honorable Paul Howard, Leslie County Sheriff

Members of the Leslie County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Maintain Monthly Tax Reports For All Taxes Collected And Pay All Taxes Due Taxing Districts By The Tenth Of The Following Month
- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Should Improve His Daily Cash Collection Processes
- The Sheriff Should Improve The Tax Collection Data Entry And Subsequent Reporting Processes

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen

Auditor of Public Accounts

August 11, 2009



LESLIE COUNTY  
PAUL HOWARD, SHERIFF  
SHERIFF'S SETTLEMENT - 2007 UNMINED COAL TAXES

For The Period October 5, 2007 Through October 24, 2008

<u>Charges</u>	County Taxes	Special Taxing Districts	School Taxes	State Taxes
Unmined Coal Taxes	\$ 166,542	\$ 282,408	\$ 449,664	\$ 147,509
Penalties	576	978	1,556	510
Gross Chargeable to Sheriff	167,118	283,386	451,220	148,019
<u>Credits</u>				
Exonerations	1,170	1,984	3,159	1,036
Discounts	2,937	4,981	7,930	2,601
Delinquents:				
Real Estate	2,735	4,638	7,385	2,423
Total Credits	6,842	11,603	18,474	6,060
Taxes Collected	160,276	271,783	432,746	141,959
Less: Commissions *	6,812	11,551	17,310	6,033
Taxes Due	153,464	260,232	415,436	135,926
Taxes Paid	153,078	259,909	415,159	136,154
Due Districts or		**		
(Refunds Due Sheriff)	\$ 386	\$ 323	\$ 277	\$ (228)

\* Commissions:

4.25% on \$ 574,018  
4% on \$ 432,746

\*\* Special Taxing Districts:

Library District	\$ 85
Health District	184
Extension District	46
Soil District	8
	<hr/>

Due Districts or

Refunds Due Sheriff	<hr/> <hr/> \$ 323
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LESLIE COUNTY  
NOTES TO FINANCIAL STATEMENT

October 24, 2008

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Leslie County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

LESLIE COUNTY  
NOTES TO FINANCIAL STATEMENT  
October 24, 2008  
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of October 24, 2008, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of April 8, 2008, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$528,434

Note 3. Tax Collection Period

The tangible property tax assessments for unmined coal taxes were levied as of January 1, 2007. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 5, 2007 through October 24, 2008.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Jimmie Sizemore, Leslie County Judge/Executive  
Honorable Paul Howard, Leslie County Sheriff  
Members of the Leslie County Fiscal Court

**Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Leslie County Sheriff's Settlement - 2007 Unmined Coal Taxes for the period October 5, 2007 through October 24, 2008, and have issued our report thereon dated August 11, 2009. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Leslie County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Leslie County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Leslie County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying comments and recommendations to be significant deficiencies in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Should Improve His Daily Cash Collection Processes



Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

- The Sheriff Should Improve The Tax Collection Data Entry And Subsequent Reporting Processes

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described above to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Leslie County Sheriff's Settlement - 2007 Unmined Coal Taxes for the period October 5, 2007 through October 24, 2008, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Sheriff Should Maintain Monthly Tax Reports For All Taxes Collected And Pay All Taxes Due Taxing Districts By The Tenth Of The Following Month

The Leslie County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Leslie County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

August 11, 2009



## COMMENTS AND RECOMMENDATIONS



LESLIE COUNTY  
PAUL HOWARD, SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Period October 5, 2007 Through October 24, 2008

STATE LAWS AND REGULATIONS:

The Sheriff Should Maintain Monthly Tax Reports For All Taxes Collected And Pay All Taxes Due Taxing Districts By The Tenth Of The Following Month

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The Sheriff did not maintain monthly tax reports for all taxes collected. In some instances, a cumulative report, not an individual month, was maintained which consisted of all taxes up to a certain date. In addition, we could not locate franchise tax reports for all payments made to the taxing districts. Also, the Sheriff did not always distribute taxes by the tenth of the following month. According to KRS 134.320 and KRS 134.300, the Sheriff shall by the tenth of each month, or more often if required by the county judge/executive, report under oath the amount of state and county taxes he has collected during the month preceding. KRS 160.510, KRS 134.320, and KRS 134.300(2) require the Sheriff to report and pay to the Board of Education, the state, and the county, the amount of taxes he has collected during the prior month. KRS 134.300(4) and KRS 134.320(4) require the Sheriff to report by the tenth of each month unless an extension is filed. These statutes state that the County Judge/Executive and the Department of Revenue may grant an extension of time not to exceed fifteen (15) days, for filing the reports referred to in KRS 134.300(1) and KRS 134.320(1). The extension must be in writing and filed with the County Clerk and the Department.

In the future, we recommend the Sheriff comply with all applicable statutes by maintaining monthly tax reports, documenting all taxes collected, discounts taken, and penalties and commissions taken. We also recommend the Sheriff comply with all applicable statutes by distributing taxes by the tenth of the month following collections. If that is not possible, we recommend the Sheriff file extensions with the County Judge/Executive and Department of Revenue as required by statute

*Sheriff's Response: We will comply. All problems encountered with late payment were because of problems with our software purchased.*

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES:

The Sheriff's Office Lacks Adequate Segregation of Duties

During our review of internal controls, we noted the following:

- One employee's duties consist of opening the mail, accepting tax payments, preparing the daily checkout sheet and preparing and making the tax deposit.
- The bookkeeper, who is a part-time employee, is responsible for posting all tax bills into the computer system, posting receipts and disbursements to the journals, receiving the bank statement unopened, performing the reconciliation and writing checks to the taxing districts
- Tax disbursement checks required only the Sheriff's signature.

LESLIE COUNTY  
PAUL HOWARD, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Period October 5, 2007 Through October 24, 2008  
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES:  
(Continued)

The Sheriff's Office Lacks Adequate Segregation of Duties (Continued)

A segregation of duties over accounting functions such as receiving cash, recording cash, preparing bank deposits, writing checks, posting transactions to the journals, reconciling bank records to the journals and preparing reports, or implementation of compensating controls, when needed because the number of office staff is limited, is essential for providing protection from asset misappropriation and/or inaccurate financial reporting including reporting to external agencies such as the state, county, and other taxing districts. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities

To adequately protect against misappropriation of assets and/or inaccurate financial reporting, the Sheriff should separate the duties involved in receiving cash, recording cash, preparing and making bank deposits, writing checks, posting transactions to the journals, reconciling bank records to the journals and preparing of tax reports. If these duties cannot be separated, strong oversight over those areas should be provided to the employee or employees responsible for these duties. If the Sheriff does implement oversight instead of segregation of duties, this should be documented on the appropriate source document.

The following are examples of controls the Sheriff could implement.

- The Sheriff could periodically recount and deposit cash receipts. This could be documented by initialing the daily check out sheet and deposit ticket.
- The Sheriff could periodically compare the bank deposit to the daily to the daily tax collections journal. This could be documented by initialing the bank deposit and daily tax collection journal.
- All checks could have two (2) signatures, with one being the Sheriff
- The Sheriff could examine checks prepared by the bookkeeper and compare to the monthly tax reports. This could be documented by initialing the reports and other supporting documentation.
- The Sheriff could review the bank reconciliation and compare the balance in the checkbook. Any differences could be reconciled. This could be documented by initialing the bank reconciliation and the balance in the checkbook.
- The Sheriff could receive the bank statements unopened, and review the bank statements for any unusual items prior to giving them to the person responsible for reconciliations.
- The Sheriff could receive a signed receipt from each taxing district documenting delivery of the tax payment.

*Sheriff's Response: We have implemented compensating controls. We are a small office and do not have adequate staff for segregation of duties.*

LESLIE COUNTY  
PAUL HOWARD, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Period October 5, 2007 Through October 24, 2008  
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES:  
(Continued)

The Sheriff Should Improve His Daily Cash Collection Processes

During the audit, we reviewed daily check out sheets and deposits and determined the Sheriff is not processing daily receipts correctly. We noted daily tax collections did not agree with the amount deposited nor did it agree with the daily check out sheet. For example, on February 29, 2008, the daily checkout sheet indicated a total of \$8,857 collected for that day's business; however, the collection report had \$10,369 posted, which agrees with the Sheriff's deposit. Additionally, the deposit for February 29 included a \$500 check for payment of a tax bill that totaled \$181. On December 17, 2007, there were three deposits and three daily reports; however, the dates on the reports included December 26, 2007, and January 12, 2008. The money was deposited into the bank on the correct date but the daily collections were not posted in the computer until as late as January 12, 2008. To adequately protect against misappropriation of assets and/or inaccurate financial reporting, the Sheriff or his designee should agree the daily tax collection journal to the daily check out sheet and the daily deposit. We recommend the Sheriff improve the daily cash collection process by reconciling the daily tax collection with the daily checkout sheet, tax bills collected for that day and with the daily deposit. We also recommend the Sheriff not accept a check made out for more than the tax bill amount.

*Sheriff's Response: This was a result of our tax software. We are in the process of purchasing a new system and we will comply.*

The Sheriff Should Improve The Tax Collection Data Entry And Subsequent Reporting Processes

While conducting the 2007 audit, we observed collection of 2008 taxes and noted the following:

- Tax bills collected were not entered into the computer system at the time they were collected. Instead the money was collected, tax bill pulled out of the tax book, marked paid and put into a basket.
- The office employee made the deposit for that day's business. Later, usually several days, the tax bills were posted into the computer system by the bookkeeper (who is part-time) and another part-time employee. This delay in posting tax bills into the computer system results in late reporting and payment of taxes to taxing districts. It also results in discounts, penalties, interest and sheriff's fees being incorrect since the computer and subsequent reports recognize the payment on the day it is entered into the system and not on the day it was actually collected unless a manual override is made by the person entering the tax bill into the system.
- Office employees confirmed the same process for the 2007 tax collections.
- As noted in another comment, daily tax collections did not agree to the daily tax collection journal or the daily cash checkout sheet. The process explained in the first and second bullet contributed to this.

LESLIE COUNTY  
PAUL HOWARD, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Period October 5, 2007 Through October 24, 2008  
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES:  
(Continued)

The Sheriff Should Improve The Tax Collection Data Entry And Subsequent Reporting Processes

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(Continued)

The computer system in place for tax collections and corresponding record keeping was not programmed to maintain a backup system in which monthly reports, if lost, could be generated. This provides the opportunity for an employee to make changes that cannot be checked or if an error results, cannot be caught by the Sheriff in a timely fashion.

The Sheriff's office is required to prepare a county settlement documenting all tax charges, credits and payments. Additionally, a state settlement, prepared by a representative of the state Department of Revenue is also required. These settlements should be prepared from the reports generated by the computer system. Based on the above conditions noted, the Sheriff's 2007 county and state settlements would have had errors, most notably in discounts, penalties, and add-on fees.

We recommend the Sheriff improve the tax collection data entry and reporting processes by implementing the following

- Posting tax bills into the computer system, as they are collected.
- Providing additional training to employees collecting taxes and using the computer system.
- Maintaining a backup system for all transactions
- Requiring prior approval by another employee for any changes to previously recorded transactions
- Requiring review of monthly reports for accuracy by an employee independent of the transaction posting
- Reconciling monthly tax reports to the tax collection receipts and disbursements journals
- Reconciling activity on a daily basis
- Maintaining accurate daily records for eventual preparation of the state and county settlements.

*Sheriff's Response: Data entry was controlled by our tax computer program and it was the fault of many problems with data entry. We are purchasing a new program that will allow for timely entry and reporting.*

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